

Message Text

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ACTION NEA-10

INFO OCT-01 EUR-12 EA-07 ISO-00 NEAE-00 SSO-00 NSCE-00
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TO SECSTATE WASHDC IMMEDIATE 885
INFO AMEMBASSY ABU DHABI
AMEMBASSY BONN
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY LONDON
AMEMBASSY TEHRAN
AMEMBASSY TOKYO

C O N F I D E N T I A L CAIRO 1236

E.O. 11652: GDS
TAGS: EFIN, EGIN, EAID
SUBJECT: ASSISTANCE TO EGYPT: AFTERMATH OF ECONOMIC REFORMS

REF: CAIRO 973

ON ASSUMPTION THAT SADAT REGIME WILL SURVIVE CURRENT
DIFFICULTIES IN CHARGE AND INTACT, ALTHOUGH SOME OF DEP
PM KAISOUNI'S ECONOMIC GROUP MAY HAVE TO GO -- OR MAY
WANT TO GO -- AT A LATER DATE, A LOOK AT THE LIKELY EFFECTS
OF ABORTIVE EFFORTS TO INTRODUCE ECONOMIC REFORM ON EGYPT'S
RELATIONS WITH DONORS MAY BE USEFUL. COMING WEEKS WILL
PROVIDE A CLEARER PICTURE, BUT CERTAIN BASIC FACTS CAN BE
STATED WITH RELATIVE CERTAINTY AT THIS POINT.

2. IMPACT ON REFORMS. THE EGYPTIANS HAVE LONG MAINTAINED
THAT INSTITUTION OF THE TYPES OF REFORMS ADVOCATED BY THE
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IMF AND OTHERS (INCLUDING MANY EGYPTIANS) WOULD RESULT IN
POLITICALLY UNACCEPTABLE PRICE INCREASES. QUESTIONS AS
TO WHETHER OR NOT RECENT EFFORT WAS PROPERLY HANDLED FROM
A PUBLIC RELATIONS POINT OF VIEW ARE CERTAINLY REASONABLE,
BUT NO LONGER HAVE ANY BEARING ON THE SUBJECT. GOE HAS NOW
PROVEN THE POINT TO ITS OWN SATISFACTION, HAVING MADE
THE EFFORT AND FAILED RATHER BADLY. WHILE THE RIOTS HAVE

NOT NECESSARILY PRECLUDED ANOTHER ATTEMPT AT GRAPPLING WITH EGYPT'S PROBLEMS, THEY HAVE CLEARLY REDUCED THE LIKELIHOOD OF A MAJOR EFFORT IN THE NEAR FUTURE. EXPRESSIONS OF DETERMINATION TO FORCE THE ISSUE HAVE BEEN HEARD FROM VARIOUS HIGH-LEVEL SOURCES, E.G., PA SPEAKER MAREI, BUT A RATIONAL LOOK AT THE EXISTING SITUATION LEADS TO THE CONCLUSION THAT ANOTHER CONFRONTATION WILL NOT BE UNDERTAKEN FOR SOME TIME.

3. IMPACT ON IMF AGREEMENT. GUNTER IS IN CAIRO, HAS HAD A PRIVATE SESSION WITH EL SAYEDH AND HAS ONE SCHEDULED WITH HAMID

HE INTENDS TO REMAIN UNTIL THE 26TH, AS ORIGINALLY SCHEDULED BUT DICKIE TELLS US THAT CONCLUSION OF A STANDBY IS NO LONGER A PRACTICAL POSSIBILITY. REDUCTIONS IN GOE EXPENDITURES WERE ONLY FEASIBLE IN A LIMITED NUMBER OF CATEGORIES, OF WHICH SUBSIDIES WERE ONE OF THE MAJOR ITEMS. IN LIGHT OF THE REACTION ENGENDERED BY THE HARSH PRONOUNCEMENTS ON PRICE INCREASES, RESULTING FROM SUBSIDY CUTS AT LEAST IN PART, DICKIE BELIEVES THAT THERE IS VIRTUALLY NO CHANCE THAT THE FUNND WILL BE ABLE TO REACH AN AGREEMENT WITH EGYPT AT THIS TIME. SOME OF THE FUND'S RECOMMENDATIONS EVIDENTLY REMAIN INTACT UP TO NOW, SUCH AS INCREASED DUTIES ON LUXURY ITEMS, BUT HE FEELS THAT DISCREDITING OF ECONOMIC GROUP WILL LEAD TO LONGER COLD LOOKS AT THEIR ENTIRE PROGRAM BY, INTER ALIA, NEWLY-ASCENDANT ASSEMBLY. IN SUM, WHILE IMF REMAINS SYMPATHETIC, THERE IS LITTLE IT FEELS IT CAN DO. A MEETING BETWEEN AMBASSADOR AND GUNTER IS BEING SET UP FOR NEXT WEEK.

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4. IMPACT ON IBRD AND CONSULTATIVE GROUP (CG). BANK REP IKRAM IS OF THE OPINION THAT THERE WILL BE LITTLE CHANGE IN RELATIONS WITH THE IBRD EITHER ON A DIRECT LOAN BASIS OR, MORE SIGNIFICANTLY, IN TERMS OF FORTHCOMING CG. BANK HAD STRONGLY BELIEVED THAT IMF STANDBY WAS ALMOST A CONDITION PRECEDENT TO A SUCCESSFUL CG MEETING, BUT KIRAM IS OF THE OPINION THAT MEETING IS EVEN MORE NECESSARY NOW, HE IS FAIRLY SURE THAT IT WILL TAKE PLACE MORE OR LESS ON SCHEDULE (LATE MARCH OR EARLY APRIL). VP BEN JENK WILL ARRIVE ON THE 22ND FOR A SERIES OF DISCUSSIONS ON THE SUBJECT, AND WE ARE ARRANGING A MEETING WITH THE AMBASSADOR FOR NEXT WEEK.

5. IMPACT ON OTHER DONORS. THOSE INTERESTED IN SUPPORTING SADAT AND HIS POLICIES WILL PROBABLY BE FACED WITH NECESSITY OF PUTTING UP THE REQUIRED SCRATCH WITH LITTLE HOPE OF SIGNIFICANT REDUCATION OVER THE SHORT RUN. KEY RECIPIENTS OF RESURGENT DUNNING WILL BE THE ARABS, WHO HAVE ALREADY COME IN FOR WIDESPREAD AND SEVERE

CRITICISM IN THE MEDIA AS BEING TO BLAME FOR EGYPT'S PRESENT PROSTRATE CONDITION. EGYPTIANS FROM SADAT DOWN HAVE TAKEN POSITION THAT AID OF MAGNITUDE CONTEMPLATED IN CREATION OF GODE (\$4 BILLION OVER FIVE YEARS) WAS PALTRY IN COMPARISON TO COUNTRY'S NEEDS, AS RECENT REFERENCES TO \$40 BILLION SPENT ON "ARAB'S WAR" MADE CLEAR. ARABS CAN EXPECT TO BE HIT WITH RENEWED REQUESTS FOR MORE MOENY COUPLED WITH INCREASING RESISTANCE TO SUGGESTIONS AS TO HOW IT SHOULD BE SPENT. NON-ARAB BILATERAL DONORS WILL PROBABLY RECEIVE SIMILAR TREATMENT, BUT AT A LOWER PITCH, AND WITH LESS FERVOR.

6. IMPACT ON KAISOUNI ET AL. DEP PM AND HIS TEAM OF TECHNOCRATS MUST BE GIVEN HIGH MARKS FOR CANDOR AND COURAGE BUT LOW MARKS FOR POLITICAL AND PUBLIC RELATIONS SENSITIVITY. BOTH MINFIN HAMID AND MINECON SAYED TOLD CONFIDENTIAL

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IKRAM THAT THEY WERE COMPLETELY TAKEN ABACK BY REACTION TO PRICE INCREASES. NEITHER ONE EXPECTED POPULACE TO BE SO CONCERNED OVER CHANGES IN PRICES, AND IT APPEARS THAT KAISOUNI SHARED THEIR ISOLATION FROM CONCERNS OF THE MASSES. (SOMEWHERE IN CAIRO, FORMER MINFIN ABU ISMAIL, WHO GOT A NUMBER OF THINGS DOEN BY MOVING SLOWLY AND QUIETLY, IS WEARING AN "I TOLD YOU SO" SMILE). ALL THE BLAME CANNOT BE PLACED ON ECONOMIC GROUP, ALTHOUGH MUCH OF IT PROBABLY WILL BE, SINCE THEIR PROPOSALS WERE CLEARED BY THE PARTY LEADERSHIP AND THE CABINET, BUT IN ADDITION TO DIMMING THEIR OWN LUSTER THEY HAVE REDUCED THE POTENTIAL EFFECTIVENESS OF ANYONE WHO MAY COME AFTER THEM. THE FUND WILL ALSO BECOME MORE TARNISHED IN EYES OF SOME EGYPTIANS, REDUCING ITS EFFECTIVENESS SOMEWHAT (IMF TEAM WAS ALMOST PNG'D IN 1975 FOR RECOMMENDING MANY OF THE STEPS KAISOUNI TOOK IN 1977 -- FOR THE SAME REASONS) AND MAKING "ECONOMIST" ALMOST AN EXPLETIVE. USG WILL ALSO SHARE SOME OF BLAME FOR SO STRONGLY SUPPORTING IMF RECOMMENDATIONS.

7. IMPACT ON THE ECONOMY. THE GOE MAY HAVE BEEN CORRECT IN ITS ASSESSMENT OF WHAT COULD BE DEONE TO REFORM ECONOMICALLY UNDER PRESENT CIRCUMSTANCES, BUT THE CHANCES OF MAKING A RATIONAL EFFORT TO FIND OUT BY INSTITUTING A CAREFULLY PREPARED AND WELL-TIMED SCENAIRO HAVE DECREASED. OVERRIDING POLITICAL CONSIDERATIONS, CLEARLY IN THE ASCENDANCE NOW, WILL PROBABLY CONTINUE TO LIMIT, BUT PERHAPS MORE SHARPLY, THE ECONOMIC MANEUVERING ROOM AVAILABLE TO THE GOE.
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